

To: Montgomery College Community

From: Liz Greaney, Chief Business/Financial Strategy Officer

Subject: **Budgeting for a Volatile Economy**

Date: October 12, 2020

As we are planning and developing our budget for the next fiscal year that begins July 1, 2021 (that is, FY22), we have to consider how the pandemic has created a volatile economy, which has had a mixed, and not yet fully determined, impact on the College's expenses and revenues. While our budget cycle is annual, last year we began to discuss a two-year outlook to provide comprehensive planning based on evolving economic realities. We believe that has put us in a better position to respond to the unanticipated global pandemic.

I encourage you to read this memorandum thoroughly so that we have a shared understanding of the fiscal and economic environment in which we operate and the variables that underpin our budget. (The infographic below provides an overview of the important budget factors.) Adjustments, modifications, and reallocations are likely to become our norm for the foreseeable future, since our budgets need to be balanced each year and we cannot operate in a deficit.

This memo will be the first of what I expect to be a series of communications with the College community this year to keep everyone well informed. I will visit the College Council meeting tomorrow to make a presentation and answer questions. Additionally, you are invited to participate in two virtual collegewide budget forums later this month. Please see forum details below.

Fiscal Outlook Report to Board of Trustees

At its September meeting, the Board of Trustees asked President DeRionne Pollard to prepare a fiscal outlook that considers the dramatic impacts of the COVID-19 pandemic. That report will be presented next Monday, October 19, at the board's monthly public meeting.

In keeping with the established timeline and given the volatility of the economy, Dr. Pollard has directed that we develop a cautious FY22 budget aligned with our mission and values. She will present the proposed FY22 budget to the Board of Trustees at its December public meeting. The board will review and then vote on the budget in January 2021. It becomes final in June after both the Maryland General Assembly and the Montgomery County Council act on their respective budgets.

The Pandemic Economy and How It Affects the College and Students

The COVID-19 pandemic has disrupted commerce, education, and everyday life. As you are no doubt aware, many employers across the globe, in Maryland, and in Montgomery County have reduced wages, furloughed employees, cut their workforces, declared bankruptcy, or even gone out of business. This economy is unlike any that we have experienced before, including the Great Depression. Economists call it a "pandemic economy" and forecasters are suggesting that the recovery will be slow

and last into 2023 and 2024—and perhaps well beyond, for those industries most dramatically impacted.

Fiscal signals from Montgomery County and the state of Maryland are mixed: the county has reported current year revenues lower by \$190 million, though the state recently revised its current year revenue estimates upward. Nonetheless, both the county and the state anticipate this public health crisis to have long-term negative effects on the economy and tax revenue. Tuition, the College's other key source of revenue, may also be down next year based on projected enrollment declines. Tuition revenue and the revenue we receive from the state are based on our enrollment. Our focus on preserving our enrollment is tied first and foremost to our access mission, which calls for us to support all who need our institution. Our goal is to support students and, hopefully, retain them through the completion of their educational goals. We have excellent staff in student affairs, marketing, and communications who work to draw students. Our academic affairs leaders have been responsive to pandemic needs by building schedules with more course formats that students prefer.

However, we know that many students and potential students are experiencing challenges related to attending college. Many are working, while caring for family members and managing increased health and safety practices. Others have lost jobs or have experienced a reduction in wages. As a result, some have reduced their course load, some have stopped attending, and some are unable to enroll. In addition, it is important to note that enrollment has declined over the past five years, and, even before the pandemic, was projected to decline in fiscal year 2022. This suggests that this important source of revenue is uncertain and volatile.

Our Current Budget

The College has a long track record of responsible fiscal management and we entered the current fiscal year, FY21, in a strong financial posture. This year's budget, planned before the pandemic, had limited new expenditures, but included salary enhancements for employees. Most importantly, it had no increases in tuition for students. We sought no new funds from the county in anticipation of an increase in state aid. The Maryland General Assembly approved new funding as requested for community colleges and the Montgomery County Council fully funded our current FY21 budget.

But as the pandemic ripped through our community, state and county decision-makers took early action to mitigate the economic impact of this crisis. Since July 1, the College's state aid was cut by \$4.6 million and the county government restricted our spending by another \$4.4 million. Enrollment year-to-date is flat compared to last year at this same time. The outlook for the remainder of the current fiscal year is uncertain. As we prepare for FY22 and future budgets, we are mindful of this dramatically unpredictable economic environment.

Impacts of the Pandemic on MC Expenditures

The pandemic has had a mixed, and not yet determined, impact on the College's expenses. On the one hand, some expenses are down (for example, utilities) but others are up, such as the costs to convert to remote operations, and support for employees and students in this status. Additional costs remain, such as installing plexiglass in places where people will interact when we return to campus. We have received federal Coronavirus Aid, Relief, and Economic Security (CARES) Act funding, and have used it where deemed allowable—to support our conversion to remote teaching and provide direct emergency aid to students. Those are one-time funds for specific purposes and not available to fund normal operational expenses.

Going Forward

Several future variables may impact the College: the possibility of a second wave of infections, for example, could result in another shutdown; federal aid, which has sustained the Maryland economy thus far, expired on October 1 and the possibility of a new round of federal support is unclear. The state will revisit its revenue projections in December. The county will know more when actual tax income is reported later this fall. Therefore, the current economic state is uncertain and quite volatile, and adjustments, modifications, and reallocations are likely to become our norm for the foreseeable future. Fiscal caution is required to responsibly manage our resources during these uncertain times.

Join Us for Our Budget Forums

The MC community will have an opportunity to learn more about our budget planning and ask questions during online budget forums on October 29 at 10 a.m. and October 30 at 2 p.m. Please submit your budget questions by October 23 to budgetforums@montgomerycollege.edu. Links for participating in the forums via Facebook and YouTube will be shared soon.

Focused on Our Mission

Dr. Pollard has stated that the College's focus during the pandemic economy must remain intently focused on fulfilling our mission. She has said that our students and our community need us more than ever, and that this moment is one for which community colleges were made. I know how passionately faculty and staff feel about serving students and the evidence of your extraordinary service during the pandemic is plentiful. I ask that you follow communications from my office and the College, for more information on how these fiscal circumstances are evolving. Thank you for your continuing dedication.

BUDGETING FOR UNCERTAINTY

Montgomery College must plan for and respond to volatile economic factors brought on by the pandemic.

REVENUE UNCERTAINTIES

- ? Spring 2021 enrollment
- ? Student retention
- ? Tuition affordability



EXPENSE UNCERTAINTIES

- ? Technology needs
- ? Health and safety expenses
- ? Pandemic-related cost inflation



FEDERAL, STATE, AND COUNTY AID

Montgomery County and the state of Maryland anticipate long-term negative effects on revenue.



↓ **FY21 county government revenue reductions** (as of October)
\$190 million

↓ **FY21 reductions to MC budget**
State: \$4.6 million
County: \$4.4 million

? **Federal grants (CARES, FEMA)**

OTHER UNKNOWNNS



Second-wave infection



Possible future shutdowns



Future federal aid

Our students and community need MC more than ever. MC is resilient and intently focused on fulfilling its mission.